



# HOUSING CREDITCONNECT

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CHICAGO • JUNE 21 – 24

## ESG Investment in Affordable Housing

SPECIAL FOCUS

## **DISCUSSION LEADER**

### **JACK POPPER**

Affordable Housing Policy Manager | Georgia Department of Community Affairs/  
Georgia Housing and Finance Authority

## **SPEAKERS**

### **ALLEN FELIZ**

Vice President, Affordable Housing Managed Services | MRI Software/TCAM

### **TERESA GALICIA**

Associate Director, U.S. Public Finance Housing | Fitch Ratings

### **SCOTT HOEKMAN**

President | Enterprise Housing Credit Investments, LLC

### **CHRISTINA TRACY**

Director of Investor Relations | National Affordable Housing Trust

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## ESG Investment in Affordable Housing

**Allen Feliz**

Vice President – Affordable Housing  
Managed Services



REAL ESTATE SOFTWARE



National Council of  
State Housing Agencies

# What is ESG?

- **Environmental, Social and Corporate Governance (ESG)** – is an evaluation of an organization’s thoroughness for social and environmental factors
- First coined in 2005 in a study entitled “Who Cares Wins” - at a conference which brought together institutional investors, asset managers, buy-side and sell-side research analysts and government entities to examine the role of social and governance value drivers in asset management and financial research





# What is ESG?



## Environmental

- Net zero buildings
- Green leases
- Electric vehicles
- Energy usage
- Water and air quality



## Social

- Subsidized housing availability
- Equal opportunities
- Support for local communities
- Diversity, equity and inclusion for stakeholders
- Voice of the resident



## Governance

- Business continuity
- Data subject security
- Legal and compliant processes
- Diversity, Equity & Inclusion

# The Need to Act

- ESG has grown from a corporate social responsibility initiative launched by the United Nations into a global phenomenon representing \$40 trillion in assets under management
- We not only have an enormous opportunity to do better but in certain respects, it's imperative that as a global community we act



**\$190 bn Spent**

On buildings in US



**27% of GHG Emissions**

Generated by commercial &  
industrial buildings



**30% Energy Wasted**

On average in  
commercial & industrial  
buildings

# Widespread Adoption



Investment, lending,  
insurance, and legal  
requirements  
driven by ESG



Real estate needs  
to attract capital



Companies must  
satisfy investors



Regulators want to  
reduce energy use

BLACKROCK

Investors optimize  
for risk/reward

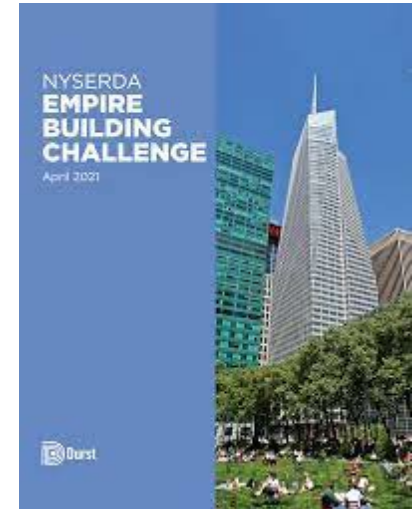


Insurers need to  
underwrite risk



Lenders need to  
underwrite loans

# Incentives for AH Owner-Developers



# Common Owner-Developer Perspectives



New Construction vs. Rehab



Sustainability Initiatives



Dashboards & Energy Analysis



Data Collection & Anomaly Detection



Sustainability Management



Tenant Billing & Utility Management



Resident Engagement











# Lots of Great ESG-AH Stories






# Where do we go from here?

-  Current Challenges
-  Impact Data Limits
-  Technology Opportunities
-  Don't Forget the "S" and the "G"
-  Industry Groups Taking the Lead
-  Establishing Solid Investment Frameworks

# Establishing an ESG AH Framework

## Key Questions



Does the investment improve the lives of the residents?

Does the investment reduce the carbon footprint of the portfolio?

Can you prove your impact?

Are you generating a reasonable economic rate of return?

Are you practicing what you preach?

# CONTACT



## Allen Feliz

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## Fitch ESG Relevance Scores

**Teresa Galicia**

Associate Director – USPF Community  
Development & Social Lending Group  
(CDSL)






# Community Development & Social Lending in the ESG Sphere



- Fitch Introduces ESG Relevance Scores for U.S. Public Finance Housing Credits in May 2020
- Scores are assigned to an IDR or Transaction
- Where Credit Risk and ESG Risk Intersect
- Score (not a rating) assignment is under an ESG framework, not included in rating criteria

# Credit Relevance Scale

- The Environmental (E), Social (S) and Governance (G) score ranges from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

CREDIT-RELEVANT ESG SCALE		
How relevant are E, S and G issues to the overall credit rating?		
5		Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis.
4		Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors.
3		Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating.
2		Irrelevant to the entity rating but relevant to the sector.
1		Irrelevant to the entity rating and irrelevant to the sector.



## FitchRatings

## Indiana Hsg &amp; Com Dev Auth (IN) [SF June 2016 Ind Prog]

USPF ESG Navigator  
Housing (HFA Loan Prog Master)

## Credit-Relevant ESG Derivation

Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has 2 ESG rating drivers and 6 ESG potential rating drivers

- + ➡ Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has exposure to low-income resident access; Housing affordability which, in combination with other factors, impacts the rating.
- + ➡ Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure, consumer data protection (data security) which, in combination with other factors, impacts the rating.
- ➡ Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has exposure to asset, operations, and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes but this has very low impact on the rating.
- ➡ Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability but this has very low impact on the rating.
- ➡ Governance is minimally relevant to the rating and is not currently a driver.

Overall ESG Scale				
key driver	0	issues	5	
driver	2	issues	4	
potential driver	6	issues	3	
not a rating driver	1	issues	2	
	5	issues	1	

## Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Environmental site risk and associated remediation/liability costs; sustainable building	Asset Quality; Financial Resources	2
Exposure to Environmental Impacts	3	Asset, operations, and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Asset Quality; Financial Resources; Asymmetric Risk Factors; Geographic Concentration	1

## How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The **Credit-Relevant ESG Derivation** table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuer's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

## Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	4	Low-income resident access; Housing affordability	Asset Quality; Financial Resources and Program Structure	5
Customer Welfare - Fair Messaging, Privacy & Data Security	4	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure, consumer data protection (data security)	Asset Quality; Asymmetric Risk Factors; Surveillance	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability	Asset Quality; Financial Resources and Program Structure; Asymmetric Risk Factors; Loan and Property Types; Surveillance	1

## Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Asymmetric Risk Factors; Management Oversight	5
Governance Structure	3	Governing body independence and effectiveness; Degree of political or external influence	Asymmetric Risk Factors; Government-Related Transfers	4
Group Structure	3	Complexity, transparency and related counterparty risk	Asset Quality; Program Structure; Asymmetric Risk Factors	3
Financial Transparency	3	Transaction data and periodic reporting	Asset Quality; Asymmetric Risk Factors; Surveillance	2
				1

## CREDIT-RELEVANT ESG SCALE

## How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating.
2	Irrelevant to the entity rating but relevant to the sector.
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# Scores Cont. Positive ESG.RS

- For elevated scores assigned to loan programs, an ESG.RS of '4' **[+]** reflects the positive exposure of social impacts on the rating. Specifically, the score reflects customer welfare as it relates to fair messaging and privacy & data security given the focus on fair housing practices by state housing finance agencies (HFAs). Fair housing practices include compliance risks involving fair lending practices, mis-selling, repossession/foreclosure and consumer data protection. Since strong fair housing practices and customer protection contribute to reduced expected losses, this has a positive impact on the rating and is relevant in conjunction with other factors.

Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has 2 ESG rating drivers and 6 ESG potential rating drivers

- + ➡ Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has exposure to low-income resident access; Housing affordability which, in combination with other factors, impacts the rating.
- + ➡ Indiana Hsg & Com Dev Auth (IN) [SF June 2016 Ind Prog] has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure, consumer data protection (data security) which, in combination with other factors, impacts the rating.
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- ➡ Governance is minimally relevant to the rating and is not currently a driver.

# Scores Cont. Positive ESG.RS Case Study

## How are ESG Considerations Delivered:

- Indiana Housing and Community Development Authority's single-family mortgage revenue bonds (June 2016 Indenture) have an ESG Relevance Score of '4' [+] for Customer Welfare -- Fair Messaging, Privacy & Data Security due to it being an HFA program focused on customer welfare and fair messaging, which contributes to reduced expected losses in the rating analysis. The focus on customer welfare includes fair lending practices, homebuyer education and counselling, and loss mitigation strategies, which combined, strengthen the program loan performance, which has a positive impact on the credit profile, and is relevant to the rating in conjunction with other factors.
- Maryland Community Development Administration (MD) [Multifamily Program] has an ESG Relevance Score of '4' [+] for Customer Welfare - Fair Messaging, Privacy & Data Security due to the GSE guarantee that addresses access and affordability while driving strong performance. This has a positive impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

# Trends

- Requirement for and Standardization Disclosures
- “S” Evolving social dynamics (qualitative to quantitative measures and outcomes)
- “G” Cyber security (adequate planning and management effectiveness)

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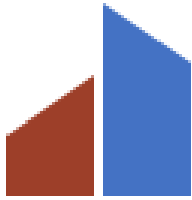
## ESG Investment in Affordable Housing

Scott Hoekman, President  
Enterprise Housing Credit Investments



# Enterprise Community Partners: Strategic Priorities

We focus on the greatest need – the massive shortage of affordable rental homes – to achieve three goals:



## Increase Housing Supply

Preserve and produce  
good homes  
that people can afford



## Advance Racial Equity

After decades of  
systematic  
racism in housing



## Build Resilience & Upward Mobility

Support residents and  
strengthen  
communities to be  
resilient to the  
unpredictable



# Why is ESG important: Value and Values

- **Illuminate opportunities** – a clearer view of our portfolio/performance through an ESG lens will point to potential product development, partnerships and other opportunities.
- **Understand Enterprise's own risks-** not simply for investors but for ourselves, allowing us to mitigate or pre-empt issues, acting preventatively and managing risks-pro-actively
- **Satisfy investor concerns and needs as ESG becomes increasingly important for Investors.**
- **Attract *new* investors who need to place their investments with ESG aligned investments.**
- **Solidify Affordable housing as an ESG investment:** Considered a "Strong S" before "ESG" even existed but need to clearly articulate.

# Enterprise ESG Framework: Process

Assess  
Enterprise's  
existing portfolio  
and operations  
through ESG lens

Enhance product  
offerings in line  
with ESG  
principles and  
values

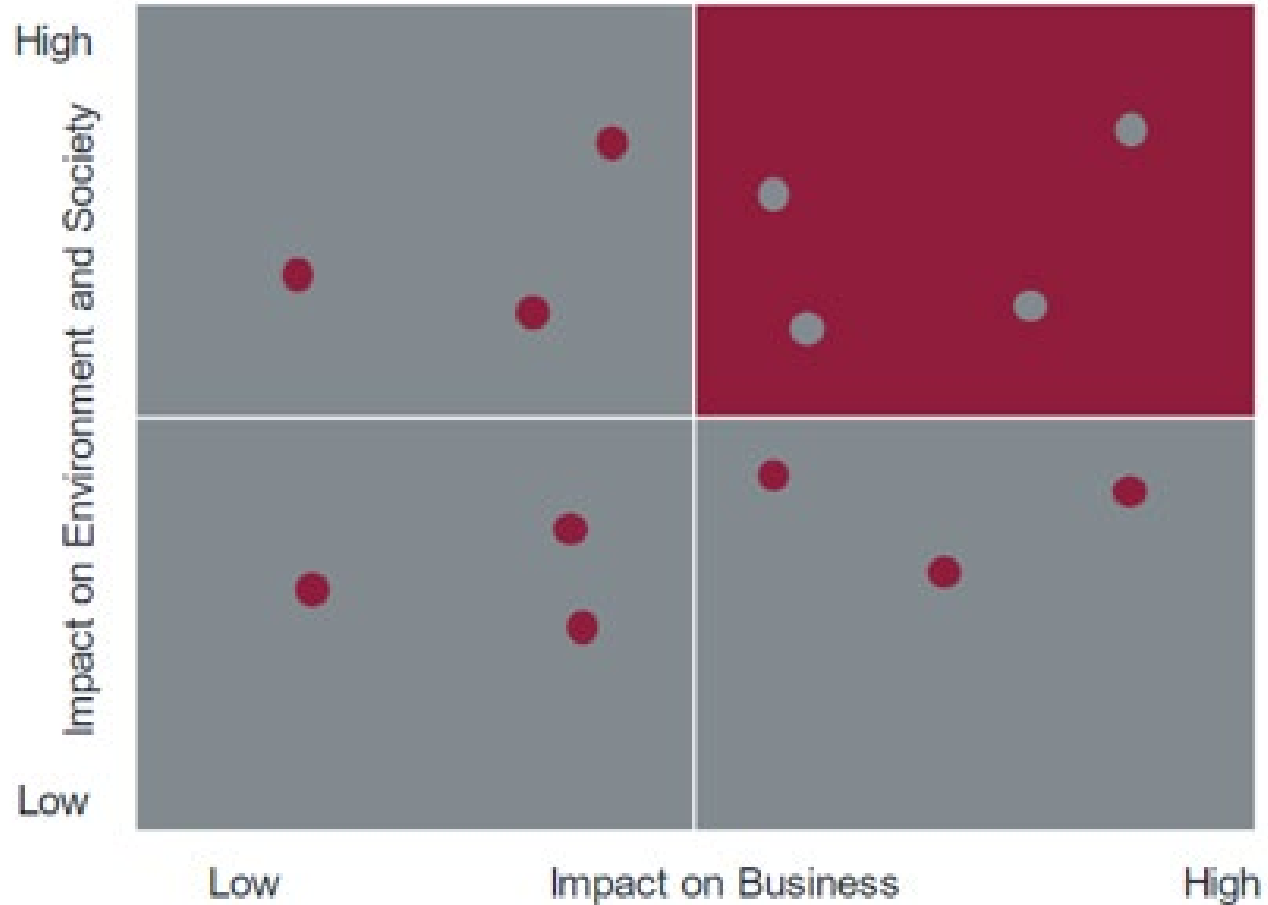
Guide  
underwriting for  
potential  
investments by  
integrating ESG

Track, measure  
and report on our  
performance

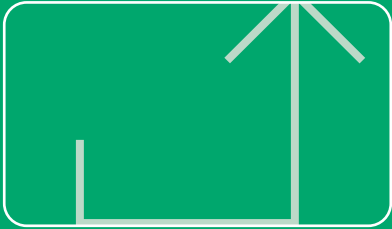
# Materiality Assessment: Identifying Top ESG Priorities

Sampling of ESG issues assessed during materiality phase:

- Wealth Inequality
- Housing Affordability
- Consumer Financial Health
- Diversity and Inclusion
- Climate Risk and Resilience
- Executive Compensation and Incentives
- Public Policy and Advocacy



# Affordable Housing: A Solid ESG Investment



Showcases E, S, G values and delivers benefits and multiple returns on Investment



Affordable Housing strong from low risk and return perspective



Provides visible and measurable impact

# Enterprise ESG Efforts Underway

- In parallel to the ESG framework development, Enterprise continues to make progress on various ESG-related efforts



**GREENING AFFORDABLE  
HOUSING**



**NAVIGATING  
INSURANCE RISK**



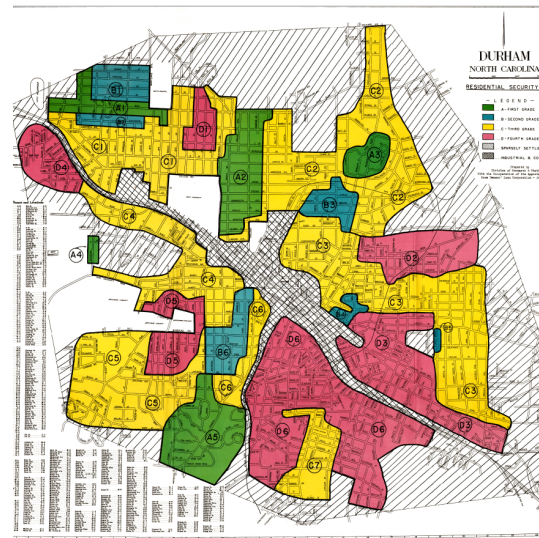
**CLIMATE RISK  
REDUCTION**



# Enterprise ESG Efforts Underway



RENTER WEALTH  
CREATION



EQUITABLE PATH  
FORWARD



DISASTER  
ACCELERATOR FUND



# Enterprise ESG Efforts Underway



IT/CYBERSECURITY



TALENT ATTRACTION  
AND RETENTION



DIVERSITY, EQUITY,  
INCLUSION

## Potential roadmap for incorporating ESG into Housing Credit development

- Mutual assistance and support among stakeholders to identify, communicate and report on ESG impacts
- Enterprise and others develop and publish frameworks that affordable housing stakeholders can use to inform and kickstart their own ESG frameworks
- States consider identifying ESG characteristics in QAPs
- Increased benchmarking of developers and investors in ESG leads to increased competition and ESG-driven investment

# Thank You!

**Scott Hoekman**

**President**

**Enterprise Housing Credit Investments**

**[Shoekman@enterprisecommunity.com](mailto:Shoekman@enterprisecommunity.com)**

**410-772-2508**



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## ESG LIHTC Investing

Christina Tracy

Director of Investor Relations

# ESG LIHTC Investing

- LIHTC is ESG, right?
- Currently self governing
- No certifications or guidelines
- ESG is subject to investors needs
- MIC – the Multifamily Impact Council

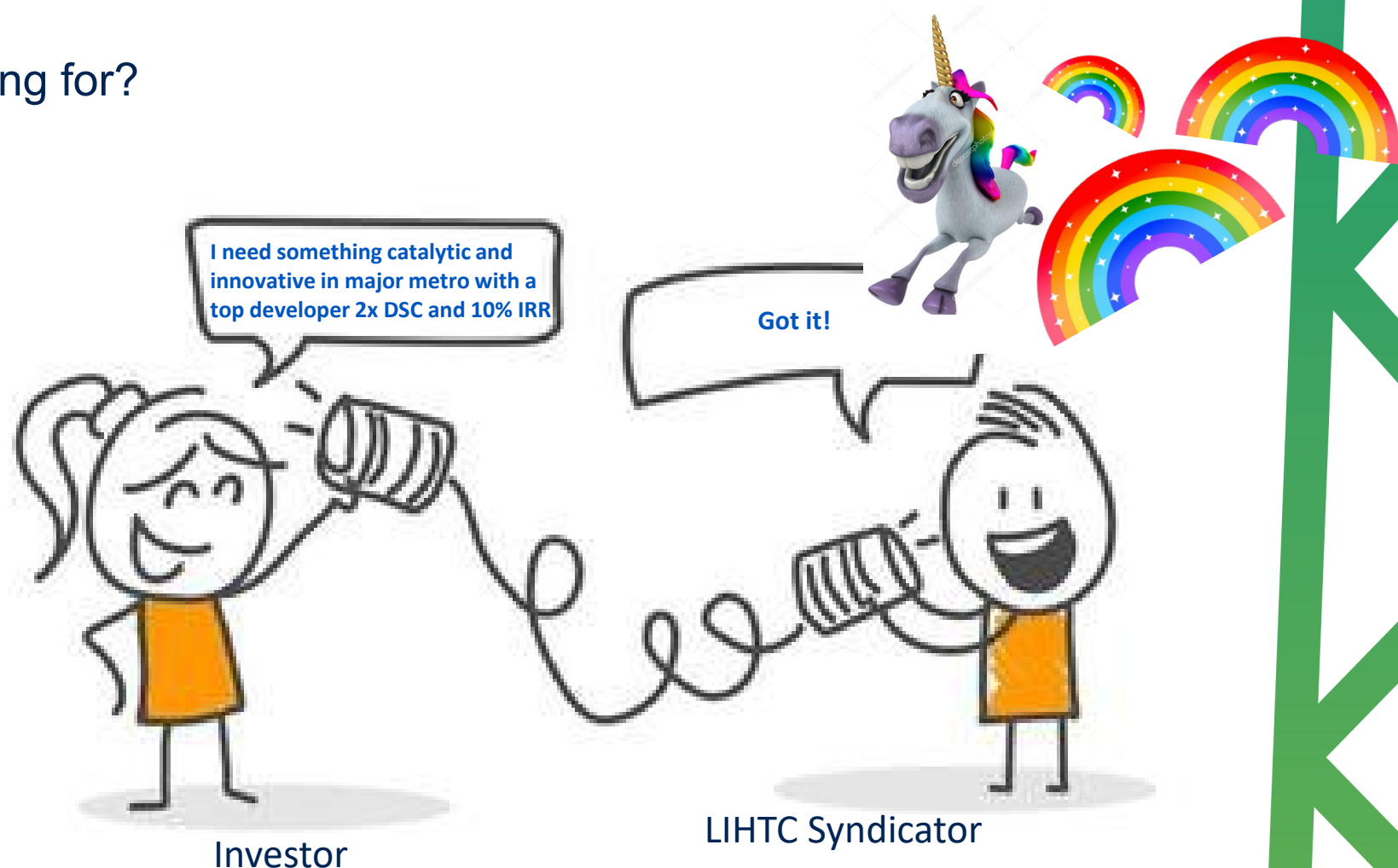


*"Regulators have sometimes expressed concerns that ESG—which doesn't have a defined regulatory meaning—can be a superficial way to market financial products to shareholders' desire to address subjects such as climate change or diversity in the workplace."*  
-WSJ June 10, 2022

# ESG LIHTC Investing

## ■ What are Investors are looking for?

- Innovative
- Catalytic
- Measurable “S”
- Stories of Impact
- Easy “E” measurables
- CRA credit
- PR splash + Glory





# NAHT Proprietary Funds

Green-Bond-Principles-Jun | black developers capital in | Goldman Sachs Launches | Goldman Sachs Launches | Goldman Sachs Announce | New tab | Additional \$100 Million In

mercatorobserver.com/2022/01/goldman-sachs-launches-75m-fund-to-aid-black-affordable-housing-developers/

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## Goldman Sachs Launches \$75M Fund to Aid Black Affordable Housing Developers

BY ANDREW COEN JANUARY 20, 2022 9:00 AM

REPRINTS



MARGARET ANADU, GLOBAL HEAD OF SUSTAINABILITY AND IMPACT FOR GOLDMAN SACHS (RIGHT) AND DIONNE NELSON, PRESIDENT AND CEO OF DEVELOPMENT FIRM LAUREL STREET. PHOTO: GOLDMAN SACHS ASSET MANAGEMENT

“Black developers often cite barriers to access to capital as a key obstacle to business growth; this initiative responds to that call for change.”

VIEW ALL DEALS

TRENDING STORIES

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65°F Cloudy 8:59 AM 6/20/2022

Green-Bond-Principles-Jun | black developers capital in | Goldman Sachs Launches | Goldman Sachs Launches | Goldman Sachs Announce | New tab | Additional \$100 Million In

businesswire.com/news/home/20220407005128/en/Additional-100-Million-Investment-in-Housing-Bolsters-UnitedHealth-Group's-Efforts-to-Address-Social-Determinants-and-Achieve-Better-...

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## Additional \$100 Million Investment in Housing Bolsters UnitedHealth Group's Efforts to Address Social Determinants and Achieve Better Health Outcomes

Total investment nears \$800 million, resulting in almost 19,000 new homes for individuals and families in need, including funds to support on-site health services

April 07, 2022 09:00 AM Eastern Daylight Time

MINNETONKA, Minn.--(BUSINESS WIRE)--UnitedHealth Group (NYSE: UNH) announced an additional \$100 million investment in the Health & Housing Fund — Trust (NAHT). The announcement creates nearly 19,000 new homes for individuals and families in need, including funds to support on-site health services.

“This additional \$100 million investment demonstrates UnitedHealth Group's focus and leadership on addressing social determinants of health and achieving better health outcomes through investment in service-enriched housing.”

“Our work to address social determinants and help to create new affordable housing opportunities that include support services is driving better health outcomes for some of the nation's most underserved populations.”

“The need for affordable housing and the connection between housing and health continues to be top of mind throughout the communities we serve,” said Tim Spilker, chief executive officer, UnitedHealthcare Community & State, a UnitedHealth Group business. “Our work to address social determinants and help to create new affordable housing opportunities that include support services is driving better health outcomes for some of the nation's most underserved populations.”

UnitedHealth Group announced its national partnership with SAHF and NAHT in June 2020, which initially provided \$118 million in funding for 15 affordable housing communities in 11 states and the District of Columbia.

more than \$1 million in grants to support on-site health-related services for residents in 2020.

UnitedHealth Group is having a positive impact, helping provide new healthy, affordable homes in communities

NAHTs portfolio is measured with quantitative metrics related to ESG (almost 10 years of data)

## ECONOMIC IMPACT <sup>1</sup>

Every dollar spent on affordable housing generates ripple effects that multiply throughout the economy



**AVERAGE ANNUAL IMPACT OF NEW CONSTRUCTION**

**\$361 million**

in economic impact across SAHF's 13 members

**3,100**

jobs in the national supply chain

**RECURRING LOCAL ANNUAL IMPACT FROM EXISTING PROPERTIES**

**\$962 million**

in economic impact from property maintenance, resident spending, and taxes

**16,000**

jobs produced in local economies

### JOB CATEGORIES SUPPORTED BY AFFORDABLE HOUSING



Construction



Transportation & Warehousing



Finance & Insurance



Professional Services



Real Estate



Health & Education



Dining & Eating



Personal & Repair Services



Utilities

## ENVIRONMENTAL IMPACT <sup>3</sup>

**SAHF is an industry leader in energy, water, and climate impact**

In 2013, SAHF members committed to reducing portfolio-wide energy and water use by 20% by 2020. Results exceeded the goal:



**29% decrease in energy consumption**

equivalent to charging the entire U.S. population's smartphones for a year



**24% decrease in water consumption**

equivalent to over 2,680 Olympic-sized swimming pools

**\$58 million**

in portfolio-wide annual utility savings

equivalent to

**\$400**

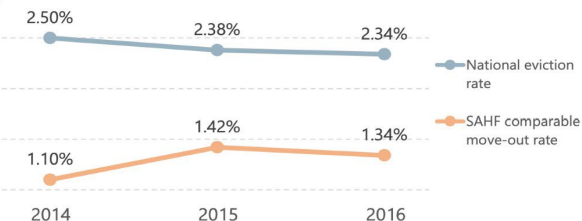
per household in lower energy and water bills

## RESIDENT IMPACT <sup>2</sup>

**Stable homes are a platform for resident well-being and opportunity. When affordable homes are enriched with services, residents experience transformative outcomes.**



### EVICTON AND HOUSING INSTABILITY RATES



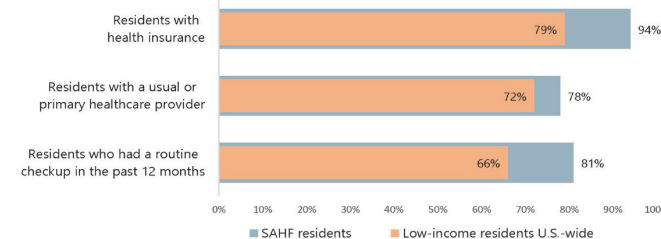
Resident service coordinators connect residents with needed services, such as financial coaching, eviction prevention and healthy living programs. From 2014-2018, families in service enriched properties saw an increase of

**\$14,000 in median income**

compared to a gain of only \$10,000 in properties without services.



### HEALTHCARE ACCESS FOR WORKING-AGE SAHF RESIDENTS



### UPGRADES TO HOMES

SAHF members work at every level of a building's life cycle to find environmentally-conscious improvements to properties and homes that also improve quality of life for residents.

**UPGRADED**

**68,060**

homes

**RETROFITTED**

**29,673**

homes

**INSTALLED RENEWABLES**

**146**

properties



**Carbon Footprint Calculator  
Coming 2023!**

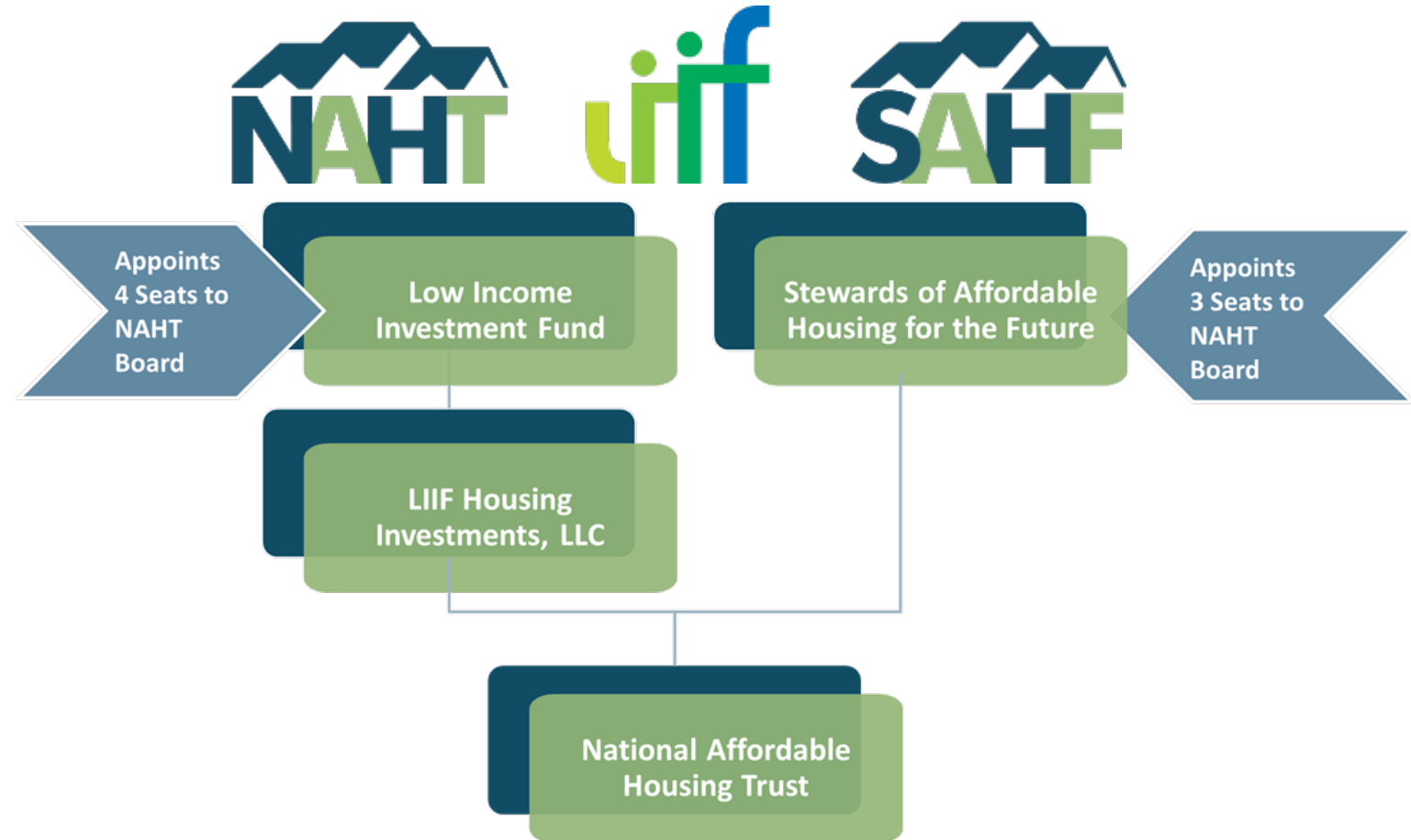


A Joint  
Venture



to  
advance...

- Upward mobility
- DEI
- Access to capital
- Innovative financing
- ESG efforts
- Impact, holistic, value aligned affordable housing development





# Stronger together



- ✚ Nonprofit Tax Credit Equity Syndicator
- ✚ Nonprofit CDFI Affordable Housing Lender
- ✚ Nonprofit collaborative of 12 mission driven affordable housing developers



A holistic approach  
towards elevating  
affordable housing

# NAHT's first annual multi-investor LIHTC Fund: *The Benchmark Fund*

*Mission Statement* – to invest in ESG and DEI efforts that will help to advance the intention of affordable housing so it may be a bridge for access to fulfilling the universal needs we all share

- \$120MM-\$100MM Fund (NAHT)
- Measured ESG and DEI related metrics (SAHF, NAHT, LIIF)
- Innovative, catalytic, impact driven deals (SAHF developers)
- Innovative, catalytic, impact driven deals (BIPOC developers)
- Support for BIPOC developers with access to lending capital if needed (LIIF)
- Support for BIPOC developers with access to technical assistance if needed (NAHT)
- **LAUNCH FALL 2022!**





# Thank you!

Christina Tracy

Director of Investor Relations

[ctracy@naht.org](mailto:ctracy@naht.org)

